

P-427, 520, 407, 426, 421, 430, 405/CP-93-160 ORDER ADOPTING RATES FOR POLLING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
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In the Matter of the Petition for Extended Area
Service From the Big Lake Exchange to the
Minneapolis/St. Paul Metropolitan Calling
Area

ISSUE DATE: September 2, 1994

DOCKET NO. P-427, 520, 407, 426, 421, 430,
405/CP-93-160

ORDER ADOPTING RATES FOR POLLING

PROCEDURAL HISTORY

On March 4, 1993, certain subscribers in the Big Lake exchange submitted a petition requesting extended area service (EAS) with the Minneapolis/St. Paul metropolitan calling area (MCA).

On May 11, 1993, the Commission issued its ORDER SCHEDULING THE FILING OF COST STUDIES AND PROPOSED RATES. In that Order, the Commission found that the Big Lake petition met the adjacency and traffic criteria of the EAS law, Minn. Stat. § 237.161. The Commission required the affected companies to file cost studies and proposed rates 60 days following the Order setting rates in the Zimmerman EAS proceeding (Docket No. P-427, 421/CP-85-652). The Commission wanted the Zimmerman rates established first to resolve the disputed cost study, routing and lower priced alternative issues in that proceeding in order to provide guidance for the filings due in the current docket.

On November 29, 1993, the Commission issued an Order granting the affected telephone companies a time extension to file their cost studies and proposed rates and requiring Sherburne County Rural Telephone Company (SCRTC) to file a proposed lower priced alternative to flat rate EAS. The extension was necessary to enable SCRTC to obtain long distance traffic information from the Minnesota Independent Equal Access Corporation (MIEAC). MIEAC maintained a portion of this traffic information because the intraLATA toll route from Big Lake to the MCA is an equal access route.

On February 9, 1994, the Commission issued an Order requiring the affected telephone companies to refile their cost studies to reflect a stimulation factor of 4. Based on data submitted in the Belle Plaine, Cologne, New Prague and Waconia EAS dockets, a stimulation factor of 4 was found to be more appropriate than the previously used stimulation factor of 7.

Between March 11 and May 27, 1994, the affected telephone companies filed their cost studies and proposed rates.

On July 7, 1994, the Minnesota Department of Public Service (the Department) submitted its comments to the Commission. No party filed responsive comments.

On August 30, 1994, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

In this Order, the Commission addresses several issues bearing on the rates to be adopted for polling, adopts those rates accordingly, and reviews the SCRTC's lower priced alternative.

First, the issues affecting rates:

1. Routing of EAS Traffic Between Big Lake and the MCA

SCRTC and U S West Communications, Inc. (USWC) have proposed different methods of routing the EAS traffic between Big Lake and the MCA. USWC is proposing that the traffic use the existing toll route with the meetpoints at the Buffalo and Elk River exchange boundaries.

The Department recommended that the Commission approve USWC's proposed routing with meetpoints at the Elk River and Buffalo exchange boundaries. The Department stated that this is the shortest route, is consistent with the routing of the Zimmerman-MCA EAS traffic, and the route already exists. The Department also calculated that routing via the MEANS building in Plymouth, as proposed by SCRTC, would cost an additional \$4,954 annually.

In support of its proposal, SCRTC indicated that this route would have SS7 capabilities, while Buffalo/Elk River routing would not.

The Commission agrees with the Department's recommendation and will approve USWC's proposed route. The Commission will require that the Big Lake EAS traffic be routed through the meetpoints at the Elk River and Buffalo exchange boundaries. SCRTC's proposal is more costly, duplicates adequate facilities that are already in place, and provides no advantage that should be paid for with EAS rates. There is no requirement that SS7 be immediately available over the Big Lake-MCA EAS route and, moreover, the costs of providing SS7 should not be recovered through EAS rates since SS7 is not necessary for the provision of EAS.

2. GTE and United Earnings Investigations

On April 18, 1994, the Department reached a settlement with GTE concerning the level of GTE's earnings. The Commission approved the settlement in its July 11, 1994 ORDER ADOPTING SETTLEMENT AND REDUCING RATES AND REQUIRING NOTICE TO CUSTOMERS AND FILING OF TARIFFS in Docket No. P-407/CI-94-366. In the settlement, GTE agreed to a 9.42 percent overall rate of return and reductions to several of its access rates.

On May 24, 1994, it reached a settlement with United concerning the level of United's earnings. In the settlement, United agreed to a 10.05 percent overall rate of return and a reduction to its rate for local transport. The Commission approved the settlement in its July 19, 1994 ORDER ADOPTING SETTLEMENT REDUCING RATES AND REQUIRING NOTICE TO CUSTOMERS in Docket No. P-430/CI-94-483.

The question is whether these developments, which occurred *after* the companies had submitted their cost studies and proposed rates for the second time should be taken into account in adopting Big Lake's EAS rates. And more specifically, do these changes warrant requiring the companies to refile their cost studies and proposed rates to reflect the lowering of GTE's rate of return and access rates and United's rate of return and local transport rate.

Minn. Stat. § 237.161, subd. 3 (b) 1992 requires that the Commission "establish rates that are income neutral for each affected telephone company at the time at which the Commission

determines the extended area service rates." In addition, the statute requires that the Commission consider the interests of all parties when determining the EAS rates. In this vein, the Commission is concerned that the petition not be blocked indefinitely by subjecting the rates to indeterminate rounds of refining. Because the level of traffic, the size of the metro calling area, and the cost factors are not constants, such revising could go on indefinitely. To prevent on-going delay in setting EAS rates there must be a cutoff point after which changes potentially affecting the rates are not considered.

In this case, that cutoff point has been reached. The cost studies and proposed rates at issue in this Order have already been revised at least once by the companies. The Commission will not send the companies back to develop a third set of cost studies and proposed rates.

The changes resulting from resolution of the GTE and United earnings investigations will be reflected in the rates approved by the Commission. In addition to noting the cited new developments, the Department estimated the effect of GTE's new rate of return (ROR) and access rates and United's new ROR and local transport rate in the cost studies filed by the companies and submitted revised rates based on those changes. Accepting the Department's calculations will not delay the processing of this petition.

3. Big Lake Subscriber Count

To the greatest extent feasible, the Commission seeks to establish EAS rates that reflect conditions that will exist during the operation of the rates. Usually, this means that the rates should be set using the most current information available.

In calculating the proposed rates, SCRTC used a subscriber count for Big Lake that appears to be from sometime in 1992. However, a subscriber count for year end 1993 was reported in SCRTC's annual report filed May 19, 1994. The Company should have used this more recent subscriber count in calculating its proposed rates.

The rates that the Commission will adopt in this Order, therefore, will be rates which have been adjusted to reflect the most current subscriber count available, i.e. the subscriber figures appearing in the Company's annual report filed in May 1994.

4. Allocation of EAS Costs

The EAS statute requires that

Rates within the existing metropolitan local calling area may not be raised as a result of the addition of a local exchange under this subdivision until the rates in the added exchange are at least equal to the highest rates in an adjacent exchange within the metropolitan local calling area, provided that the rates in the added exchange may not exceed the amount necessary to recover 100 percent of the costs and ensure that the rates are income neutral for the telephone company serving the added exchange. Minn. Stat. § 237.161, subd. 3 (a) (1992).

In short, the EAS law requires that the rates in Big Lake equal or exceed the highest rates of any adjacent exchanges already in the MCA.

The cited provision impacts the setting of Big Lake's EAS rates. The Zimmerman exchange, which is adjacent to Big Lake and a member of the MCA, has EAS rates which are so substantial that even when 100 percent of Big Lake-MCA EAS costs are allocated to Big Lake, Big Lake's

EAS rates will not exceed Zimmerman's.

Pursuant to the cited provision of the EAS statute, therefore, Big Lake's EAS rates must be set to recover 100 percent of the Big Lake-MCA EAS costs.

5. Rates for Polling

The Commission will adopt EAS rates for Big Lake that reflect the four adjustments indicated in the previous sections. The rates reflect the Department's calculations of the lower Big Lake-MCA EAS revenue requirements due to the GTE and United earnings investigations, routing of the traffic via Elk River and Buffalo exchange boundary meetpoints, and the number of subscribers in Big Lake as of year end 1993. Finally, as discussed in the previous section, recovery of 100 percent of the EAS costs are assigned to subscribers in the Big Lake exchange.

Rates reflecting those decisions are set forth in Ordering Paragraph 4.

6. Lower Priced Alternative

When the calling area sought is the MCA, Minn. Stat. § 237.161, subd. 1 (c) (1992) requires that the local exchange company (LEC) serving the petitioning exchange must offer its subscribers local measured service or another lower cost alternative to flat-rate EAS service.

SCRTC proposed to offer the same lower priced alternative in Big Lake that the Commission directed it to use in Zimmerman.¹ That proposal contains a monthly flat rate portion of \$5.00 for residential and \$8.80 for business customers. In addition, per minute charges of 25 cents (8:00 a.m. to 10:00 p.m.) or 12.5 cents (10:00 p.m. to 8:00 a.m.) would apply for calls into the MCA. Calling within Big Lake and to the existing EAS points of Zimmerman, Glen-Santi, Becker, Enfield and Monticello would continue as flat-rated calls.

In calculating proposed rates for its lower priced alternative, SCRTC assumed a take rate similar to the take rate that United experienced in its Waconia exchange during the first several months after EAS with the MCA was provided there. This method for determining the take rate for the lower priced alternative was specifically required by the Commission in the Monticello EAS docket and is the same method approved for use in the Zimmerman EAS docket.²

Finally, though the call stimulation factor used by SCRTC in this case (3) differs from the call stimulation factor used for the Zimmerman lower priced alternative, the lower rate is consistent with the reduced overall stimulation factor in this case and is supported by the record.

In these circumstances, the Commission will approve SCRTC's proposed lower cost alternative.

The Commission will reject, however, the Company's request that a true-up be conducted one

¹ In the Zimmerman EAS proceeding, the Commission rejected the lower priced alternative proposals of both SCRTC and the Department as filed and instead required substantial modifications to the SCRTC plan. See In the Matter of a Petition for Extended Area Service Between Zimmerman and the Minneapolis/St. Paul Metropolitan Calling Area, Docket No. P-427, 421/CP-85-652, ORDER ADOPTING RATES FOR POLLING (September 21, 1993) at page 4.

² ORDER, *supra* at page 4.

year after the service has been installed if the take rate for the lower priced alternative is more than ten percent different from the estimate. The reasons for not allowing an automatic true-up are the same as the reasons cited in the Commission's Order in the Zimmerman docket for rejecting a similar request: the rates adopted for polling should reflect as accurately as possible the actual rates so that there are no changes to the rates shortly after their implementation; provision of true-ups would reduce parties' incentives to set income neutral rates as accurately as possible; and, if the rates are over recovering or inadequate, there are regular procedures already in place for adjusting rates.³

ORDER

1. The cost studies filed by Eckles, Scott-Rice, USWC and Vista are approved.
2. The cost studies filed by GTE and United are approved as modified by the Department.
3. The cost study filed by SCRTC as adjusted by the Department to reflect Elk River and Buffalo exchange boundary meetpoints is approved.
4. The monthly EAS rates for Big Lake subscribers are as follows:

<u>Customer Class</u>	<u>Monthly EAS Additive</u>
Resident	\$35.50
Business	\$62.32

5. There shall be no increase to the rates for subscribers in the existing metro calling area as subscribers in Big Lake are bearing 100 percent of the costs of the EAS as required by Minn. Stat. § 237.161, subd. 3 (a) (1992).
6. The rates for SCRTC's lower priced alternative to flat-rate EAS in the Big Lake exchange shall be as follows:

<u>Customer Class</u>	<u>Lower Priced Alternative Monthly Charge</u>
Resident	\$ 5.00 *
Business	\$ 8.80 *

* Plus 25 cents per minute of use for calls into the MCA between 8:00 a.m. and 10:00 p.m. and 12.5 cents per minute of use between 10:00 p.m. and 8:00 a.m.

7. SCRTC's proposal that the Commission conduct a true-up proceeding if the take rate for the lower priced alternative is more than ten percent different from the Company's estimate after the service has been in place for one year is rejected.

³ ORDER, supra at page 4.

8. SCRTC shall cooperate with the Commission Staff and Commission contractor to provide a customer list (one deliverable address for each access line) and other information needed to poll the Big Lake exchange.
9. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)